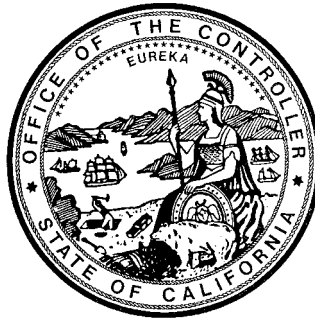


ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

July 1, 2002, through June 30, 2003



STEVE WESTLY
California State Controller

October 2003



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California State Controller

October 30, 2003

Mr. Jack O'Connell
State Superintendent of Public Instruction
California Department of Education
P.O. Box 944272
Sacramento, CA 94244-2720

Dear Mr. O'Connell:

I am pleased to announce the completion of the *Annual Financial Report of California K-12 Schools* for 2003. The report summarizes the financial and program compliance status of the State's school districts and county offices of education for fiscal year (FY) 2001-02. As such, the report will be useful in helping you and the State Legislature plan for California's future educational needs.

For FY 2001-02, the financial health of most of California's 985 school districts and 58 county offices of education was stable. For the 11th consecutive year, school districts overall spent less money than they received—an indication that districts are maintaining reserves and spending within their means. Also, the number of school districts engaged in multi-year deficit spending decreased slightly—from 83 districts in FY 2000-01 to 75 districts. In addition, state and federal compliance findings noted in the independent auditors' reports of school districts decreased from the prior year. There were 1,016 compliance findings in FY 2001-02, an 11.5% decrease from the 1,148 reported in FY 2000-01.

Despite overall fiscal stability, the number of districts and county offices of education filing negative or qualified interim certifications increased significantly, from 53 in FY 2001-02 to 71 in FY 2002-03, and long-term borrowing increased by 126%. Also, 30% of the compliance findings were related to deficiencies in attendance accounting, the primary basis for allocation of state funding. In addition, the independent audit reports noted that 12% of the 881 school districts participating in the class-size reduction program failed to fully comply with program reporting requirements. These districts and programs should be closely monitored to ensure that these problems are addressed.

Please direct any comments regarding the content of the report to Walter Barnes, Chief Deputy Controller, Finance, at (916) 445-3028.

Sincerely,

STEVE WESTLY
California State Controller



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Executive Summary

The State Controller has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The State Controller's goal is to promote greater fiscal accountability by local school districts and county offices of education and to function as the independent protector of taxpayer dollars.

This oversight responsibility includes reviewing annual school district audit reports, maintaining a database with financial and statistical data on school district audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, providing guidance and assistance to independent auditors through the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, and conducting financial and program audits at various school districts.

This year's report contains the following key findings:

- Fiscal year (FY) 2001-02 marked the 11th consecutive year that California's local educational agencies as a whole did not spend more money than they received—an indication that the agencies are maintaining reserves and spending within their means.
- Four school districts had very low fund reserves (1% or less of their general fund expenditures)¹ in FY 2001-02.
- The number of districts engaged in multi-year deficit spending decreased during FY 2001-02. Compared to 83 districts in the prior year, 75 districts in FY 2001-02 engaged in multi-year deficit spending, a 9.6% decrease. Although some school districts may have legitimate needs to engage in multi-year deficit spending (such as for building projects), this practice is often an indication that a district is facing financial difficulty.
- Long-term borrowing increased by \$3.48 billion during FY 2001-02 to a total of \$6.25 billion, compared to \$2.77 billion in the prior year, a 126% increase.
- The number of districts filing negative or qualified certifications relating to their ability to meet their financial obligations for the current and subsequent two fiscal years increased significantly, from 53 in FY 2001-02 to 71 in FY 2002-03. Fifty-five school districts filed qualified interim financial reports and eight school districts filed negative interim financial reports in the second reporting period of FY 2002-03, indicating that they may not meet their current and future financial obligations. Continuing financial difficulties may have a negative impact on these districts' educational programs.

¹ Title 5, *California Code of Regulations*, Sections 15443 and 15456, establishes standards for minimum reserves.

- The number of state and federal compliance findings in FY 2001-02 decreased from the prior year. Approximately 30% of the compliance findings are related to deficiencies in average daily attendance accounting. Average daily attendance (ADA) is the primary factor in determining the amount of funding a school district receives from the State.
- The school districts' annual audit reports disclosed 106 audit findings for the 881 elementary school districts participating in the class-size reduction program. There were also 102 audit findings for the 983 K-12 school districts and 58 county offices of education that received state instructional materials funds.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual school districts by independent certified public accountants for FY 2001-02. Additional data came from interim financial report certifications submitted by school districts during FY 2002-03.

Introduction

The State Controller's Office oversight role in the K-12 fiscal process is administered by its Division of Audits. Oversight activities focus primarily on three areas: financial indicators, program compliance, and quality control.

The State Controller's Office also has responsibilities relating to the financial oversight of school districts (including county superintendents of schools), in accordance with *Education Code* Section 14500. These responsibilities include:

- Publishing an annual audit guide¹, which prescribes financial statements and other information that should be included in each school district's audit report. This publication provides guidance to the independent auditors conducting school district audits;
- Reviewing each school district's audit report submitted to the State and performing the associated follow-up actions, including compliance audits²;
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;
- Conducting selected school districts' annual financial and compliance audits as a condition of the districts receiving emergency state apportionments;
- Ensuring that satisfactory arrangements for an annual audit have been made for each school district; and
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

¹ *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide) is published by the State Controller's Office. The *Education Code* states that the Controller, in consultation with the California Department of Education, the California Department of Finance, a representative of the county offices of education, and representatives of the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the State and shall develop an audit guide to carry out the purposes of this chapter. Prior to the issuance of the audit guide, the Controller shall submit a copy of the audit guide to the Department of Finance for review to ensure that all compliance requirements are properly included.

² Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations. These program funds (restricted revenues) comprise, on average, approximately 21% of a school district's total funds.

Financial Indicators

Overview

Assembly Bill 1200, enacted in 1991 (Chapter 1213), put school district finances under the control of county offices of education and the California Department of Education. The law protects the public's interest in education by giving county offices of education specific responsibility for fiscal oversight of districts within their jurisdictions.

Key financial indicators representing the financial health of school districts are presented in this chapter. Most of the indicators use data from annual audit reports prepared by independent certified public accountants (CPAs) for FY 2001-02. State law requires school districts approximately six months after the end of a fiscal year to submit an independent audit report to the State Controller's Office and the California Department of Education. Additional data comes from interim financial report certifications submitted by school districts during FY 2002-03 and from audits conducted by the State Controller's Office. Each section of the report specifies the fiscal year for which the data was obtained.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and to the county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31, and November 1 through January 31), and must be reviewed by the appropriate county superintendent of schools. The interim reports contain financial and program information on standardized forms as prescribed by the State Superintendent of Public Instruction.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year or subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year or subsequent fiscal year**.

School districts that file qualified or negative interim reports work with their county school superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the State Superintendent of Schools.

Significant increase in number of districts filing qualified or negative certifications

During FY 2002-03, 38 of the 983 school districts and 58 county offices of education in the state filed a qualified certification, and 5 districts filed a negative certification for the first period interim report. Of the 43 districts, 35 filed a second-period qualified or negative interim report, while eight districts were able to take corrective action. However, an additional 28 districts filed qualified second-period interim reports, for a total of 63 districts filing qualified or negative certification for the second-period interim report (Table 1). Thus, 71 districts reported qualified or negative classifications in at least one of the two periods (Appendix A). Twenty-five school districts remained on the list from the prior year. School districts filing qualified or negative interim reports for two or more years are monitored closely by the State Controller's Office through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications were:

- Deficit spending
- Inadequate reserves
- Governor's mid-year cuts and budget reductions
- Declining enrollment
- Salary and benefit negotiations

Table 1

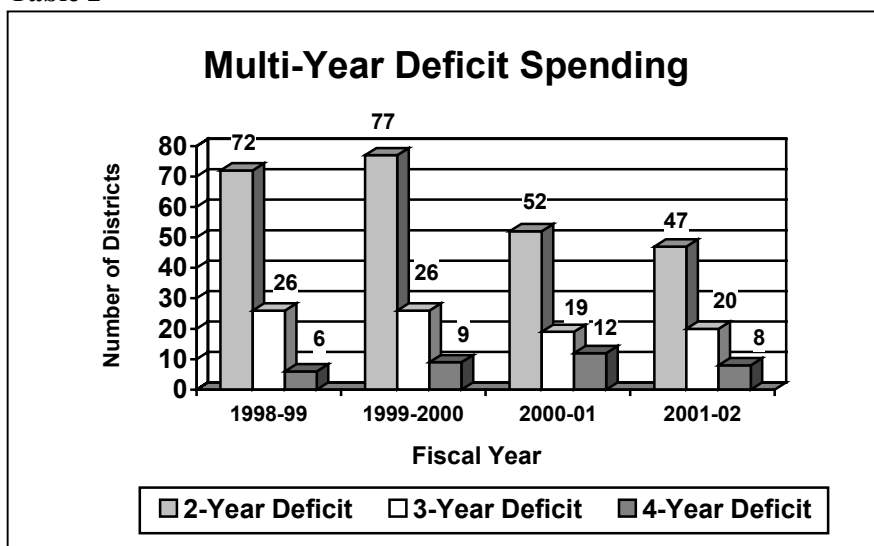
| SECOND-PERIOD INTERIM REPORTING HISTORY | | | | | |
|--|----------------|------------------|----------------|----------------|-----------------|
| | <u>1998-99</u> | <u>1999-2000</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03*</u> |
| Positive | 1,037 | 1,027 | 1,023 | 1,003 | 978 |
| Qualified | 14 | 16 | 18 | 34 | 55 |
| Negative | <u>1</u> | <u>3</u> | <u>4</u> | <u>6</u> | <u>8</u> |
| Totals | <u>1,052</u> | <u>1,046</u> | <u>1,045</u> | <u>1,043</u> | <u>1,041</u> |
| * Additional information regarding districts that filed qualified or negative interim reports during FY 2002-03 is provided in Appendices A and B. | | | | | |

Deficit Spending

During FY 2001-02, single-year deficit spending increased to 330 districts from 124 districts in the prior fiscal year. Deficit spending patterns are closely monitored by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

During FY 2001-02, the number of districts relying on multi-year deficit spending decreased (Table 2). The biggest decrease was for four-year deficit spending (4 districts, or 33.3%).

**School district
multi-year deficit
spending decreases**

Table 2
**Emergency
Apportionments**

When the governing board of a school district determines that the district's revenues are not sufficient to meet its current-year obligations, it may request an emergency apportionment through legislation. As a condition of acceptance of the loan, the superintendent will appoint an administrator or trustee to control, monitor, and review the operation of the district. The administrator or trustee will help the district to develop a five-year recovery plan.

**More school districts
requested emergency
loans**

During the past 21 years, the State has granted more than \$174 million in emergency loans to school districts. Currently, four districts have outstanding loans (Table 3). West Contra Costa Unified School District and Emery Unified School District are meeting their repayment schedules.

West Fresno Elementary School District has not yet drawn any funds. Oakland Unified School District is in the process of drawing \$65 million. The final payment date has not been established for West Fresno Elementary School District and Oakland Unified School District.

Table 3

| DISTRICTS WITH OUTSTANDING LOANS | | | | |
|----------------------------------|---------------------------|-----------------|---------------------|----------------------|
| Fiscal Year | School District | Amount of Loan | Outstanding Balance | Final Repayment Date |
| 1990-91 | West Contra Costa Unified | \$28.5 million | \$18.4 million | February 1, 2018 |
| 2001-02 | Emery Unified | \$2.3 million | \$1.3 million | Sept. 30, 2021 |
| 2002-03 | West Fresno Elementary | \$2.0 million | — | Not set |
| 2002-03 | Oakland Unified | \$100.0 million | \$65.0 million | Not set |

General Fund Revenues and Expenditures

FY 2001-02 marked the 11th consecutive year in which total school district general fund revenues exceeded expenditures (Table 4). The number of districts able to accomplish this in FY 1991-92 was 526 (49%); in FY 1992-93, 757 (71%); in FY 1993-94, 636 (60%); in FY 1994-95, 504 (48%); in FY 1995-96, 803 (76%); in FY 1996-97, 724 (68%); in FY 1997-98, 685 (65%); in FY 1998-99, 732 (70%); in FY 1999-2000, 674 (64%); in FY 2000-01, 833 (80%); and in FY 2001-02, 631 (61%).

As school districts continue to spend less than they receive, they are able to increase their total fund balance, or surplus. The cumulative surplus for California school districts totaled \$5.175 billion at the end of FY 2001-02. That amount consisted of an increase of \$981 million in total revenues over expenditures at the end of FY 2001-02. As part of the total fund balance, the districts are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

Table 4

| SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (in billions) | | | | | | | | | |
|---|--------------|----------|----------|----------|----------|----------|-----------|----------|----------|
| | Fiscal Years | | | | | | | | |
| | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
| Revenues | \$24.531 | \$24.955 | \$26.746 | \$29.778 | \$32.893 | \$35.715 | \$38.793 | \$44.262 | \$45.323 |
| Expenditures | 23.865 | 24.729 | 26.026 | 29.040 | 32.017 | 34.675 | 37.690 | 42.804 | 44.342 |
| Surplus | \$.666 | \$.226 | \$.720 | \$.738 | \$.876 | \$ 1.040 | \$ 1.103 | \$ 1.458 | \$.981 |

General Fund Balances

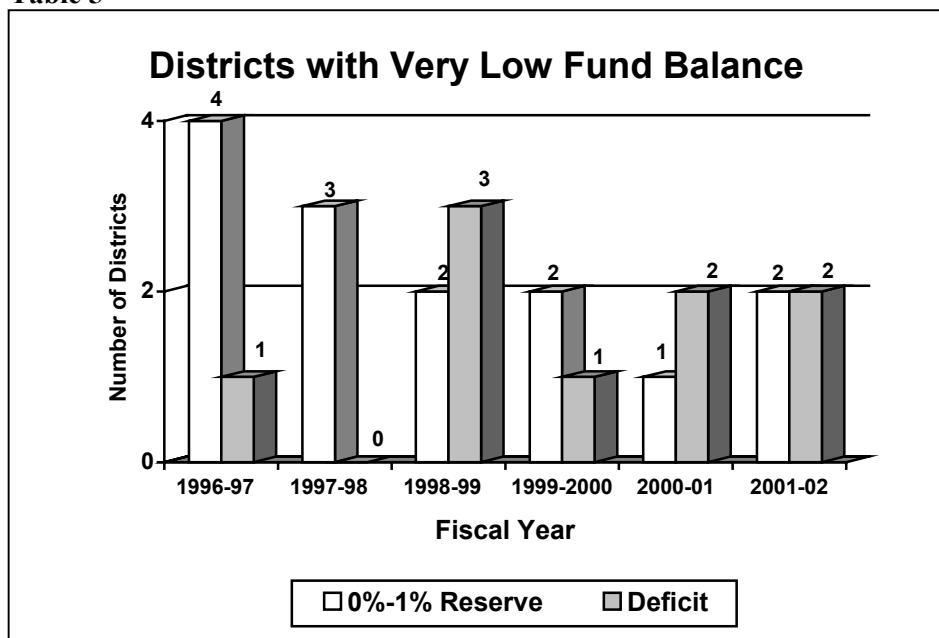
School districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years in their interim reports. The primary purpose of this reporting is to identify potential deficit spending early in the process so the trend can be reversed.

Number of districts with very low reserves increased by one

The number of school districts with low fund balance reserves or deficit balances increased by one. At the end of FY 2001-02, 4 of 983 school districts and 58 county offices of education had low fund balance reserves (1% or less of general fund expenditures) (Table 5).

Only two districts had a very low fund balance reserve and two districts had negative fund balances. This is a continuing improvement over the last eight years in the number of districts with very low reserves.

Table 5



Long-Term Borrowing

School districts' long-term borrowing increased significantly

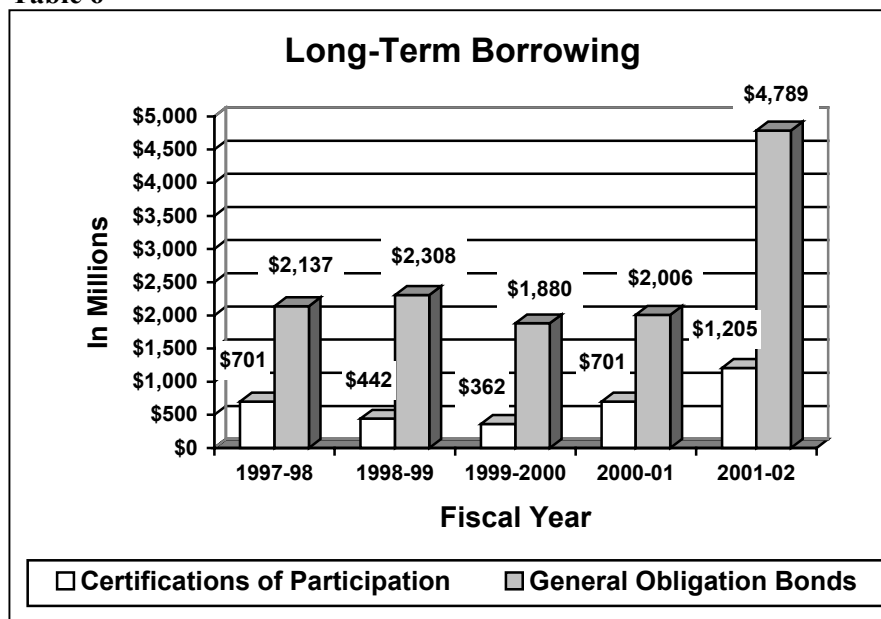
Generally, long-term debt is issued by districts to: fund the purchase, construction, or lease of buildings and equipment; refinance existing debt; or buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

During FY 2002-03, school districts issued \$6.254 billion in long-term debt, an increase of \$3.482 billion over the prior year (126%). Long-term debt financing included:

- **Certificates of Participation (\$1.205 billion, or 19%)**—A financing technique that provides long-term financing through leasing of school facilities, such as buildings, with an option to purchase or a conditional sales agreement.
- **General Obligation Bonds (\$4.789 billion, or 77%)**—Bonds secured by the full faith and credit of the district. These long-term obligations generally are issued at more favorable rates than other types of debt because of their preferred status; that is, they are secured by the taxing authority of the district.
- **Limited Tax Obligation Bond Instruments and Other Debt (\$260 million, or 4%)**—A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

School districts issued \$5.994 billion in certificates of participation and general obligation bonds during FY 2001-02, an increase of \$3.287 billion (121%) from the prior year's \$2.707 billion (Table 6).

Table 6



Financing through certificates of participation increased by \$504 million and financing through general obligation bonds increased by \$2.783 billion over the prior year. The certificates of participation were issued by 78 school districts during FY 2001-02.

There is a continuing trend for districts to make greater use of general obligation bonds than other types of long-term debt. Certificates of participation accounted for 19% of long-term borrowing in FY 2001-02, a 6% decrease from the previous year. In comparison, general obligation bonds accounted for 77% of long-term borrowing in FY 2001-02, an increase of 4% from FY 2000-01.

Lottery Revenues

Lottery revenues projected to decrease

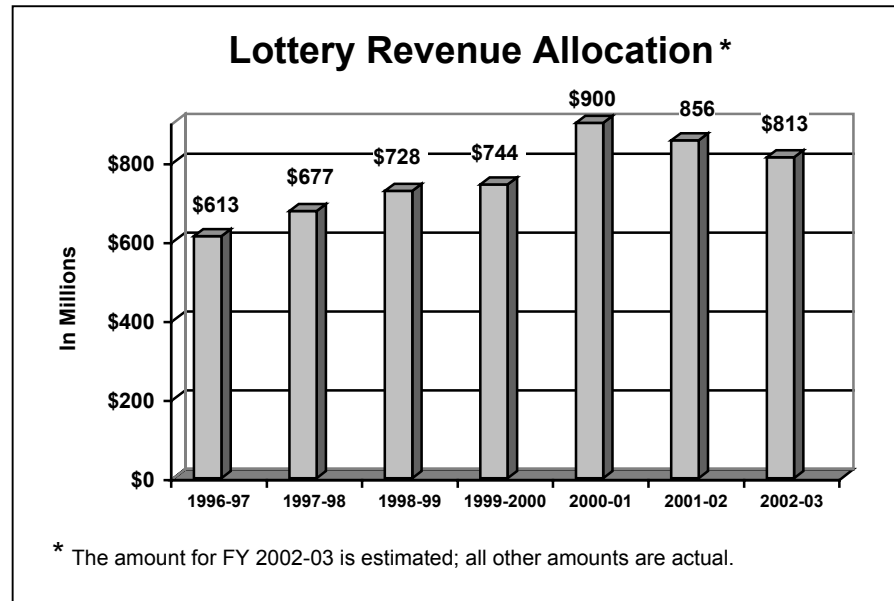
The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts, community colleges, and other educational agencies. The division of this 34% between K-12 school districts and junior colleges fluctuates annually.

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller's Office and the California State Lottery.

Lottery revenue allocated to school districts decreased due to lower sales. Revenue for FY 2002-03 is projected to decrease by 5.1% from 2001-02, down to \$813 million³—about \$125 per K-12 average daily attendance (Table 7).

³ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Table 7



Program Compliance

Overview

The State Controller's Office also reports on program compliance issues as part of its review of annual audit reports, the overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

School district auditors determine whether the districts and joint powers entities (JPEs) have complied with state and federal laws and regulations that may have a material effect on the financial position and operations of the organization or program(s) under audit. The JPEs are formed to provide a joint service to a group of districts and are governed by a board consisting of a representative from each member district. When a school district or JPE is not in compliance with applicable laws and regulations, the findings are communicated in the audit report.

The number of compliance findings contained in FY 2001-02 school district financial reports submitted by CPAs decreased from the prior year. There were 1,016 compliance findings in FY 2001-02, an 11.5% decrease from the 1,148 reported in FY 2000-01 (see Appendix D). The number of attendance accounting findings decreased by 82 (from 386 to 304, or 21%) from the prior year.

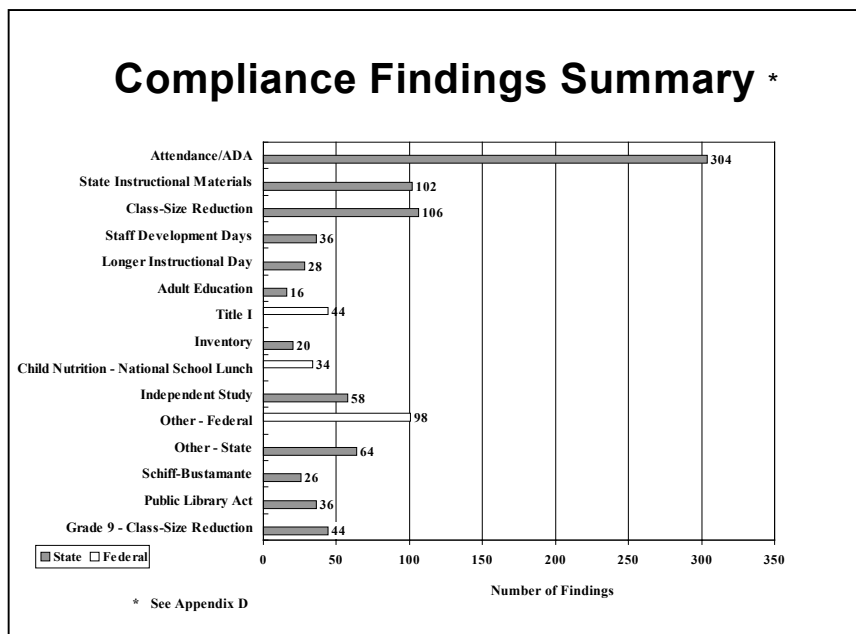
Some of the problems identified in the compliance findings may have a fiscal impact on district operations by causing a loss of state and federal funding. Of the 1,016 audit findings, 840 (82.7%) pertained to state programs and requirements, and 176 (17.3%) pertained to federal programs and requirements (see Table 8). Attendance-related findings accounted for 30% of compliance findings. The attendance findings were related to:

- Overstating ADA
- Kindergarten continuation forms not being maintained and/or in compliance with state requirements
- Understating ADA
- Not reconciling attendance reports to supporting documentation
- Attendance reports being inaccurate or incomplete
- Not having attendance registers/scantrons signed by the teacher

The FY 2001-02 school district audit reports also found that 12% of the 881 elementary school districts participating in the class-size reduction program did not fully comply with program reporting requirements. The audits identified 106 findings relating to the class-size reduction program. Most of the findings pertained to inaccuracies in reporting class-size totals and daily enrollments.

The audits also disclosed 102 findings pertaining to the state instructional materials fund. Of these, 57.84% (59) pertained to public hearing notice requirements and expending more than the 30% allowance on non-adopted materials.

Table 8



Reporting of Findings

Annual audit reports by CPAs are the primary source of information regarding a school district's financial stability and its compliance with state and federal program requirements. Noncompliance with program laws and regulations is not always included in the audit reports. Some of these problems were either reported to the school district in the independent auditor's management letter or were undetected by the independent auditor.

Build-Upon Audit

The Single Audit Act of 1984, as amended in 1996, requires agencies that perform compliance audits to build upon the school district audits performed by independent CPA firms to avoid duplication. As a fiscal oversight agency, the State Controller's Office pursues unreported issues through supplemental audits, commonly called build-upon audits, and through other surveys of school districts' business and accounting practices. As a general rule, State Controller's Office auditors review the working papers of single audits performed by independent CPAs prior to conducting a build-upon compliance audit or survey.

In FY 2002-03, the State Controller's Office performed a build-upon audit of a charter school's attendance accounting and compliance with state programs.

Principal audit findings

The State Controller's Office audit disclosed the principal audit findings listed below. The California Department of Education is responsible for following up on the findings to ensure that they are properly resolved.

- Teachers lacked proper credentials.
- Evidence of sectarian studies was disclosed during the review of the student learning record.
- Mandatory permanent pupil records were lacking.
- Categorical funding was not distributed.
- There were instances of noncompliance with STAR 9 testing requirements.
- Attendance was improperly reported.
- There were conflicts of interest.
- Supervisorial oversight fees were in excess of maximum amounts allowable by the *Education Code*.
- There were instances of noncompliance with independent study requirements.

The audit resulted in \$11.7 million in questioned costs.

Mandate Audits

In addition, the State Controller's Office performed audits of mandated costs claimed by school district. Principal audit findings are as follows:

Collective Bargaining Program

- Lack of supporting documentation for salaries and benefits, duplicate claiming of employee time, and overstatement of salaries.
- Lack of supporting documentation for materials and supplies and claiming of costs not related to program.
- Unsubstantiated charges for contract services.
- Unsubstantiated claimed costs.
- Lack of supporting documentation for salaries and benefits.
- Ineligible contract services.
- Base-year cost not reduced.

Emergency Procedures

- Lack of supporting documentation for salaries and benefits and related indirect costs.
- Lack of supporting documentation for materials and supplies.
- Unsubstantiated charges for contract services.

Habitual Truant Program

- Lack of supporting documentation for salaries and benefits and related indirect costs. Claimed costs based on estimates.

Intradistrict Attendance Program

- Lack of supporting documentation for salaries and benefits and related indirect costs.
- Lack of supporting documentation for materials and supplies.

Notification of Truancy Program

- Overclaimed number of initial truancy notification forms distributed.

These audits resulted in \$6.7 million in questioned costs.

Quality Control

Overview

The State Controller, under *Education Code* Section 14504, reviews and certifies the annual independent audit reports submitted by each school district, county office of education, and joint powers entity (JPE) for compliance with audit guidelines set out in the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide).

Audit Report Certifications

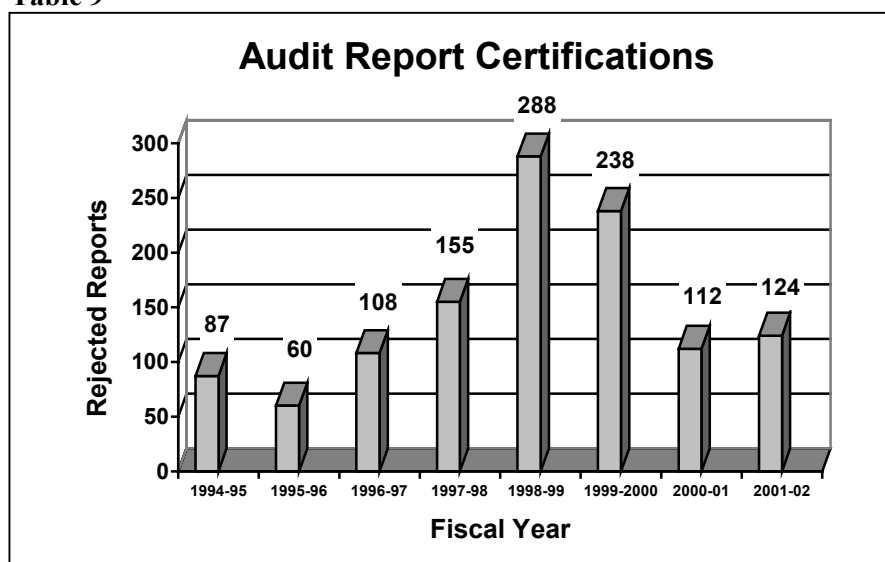
The State Controller's Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and provides notification to each school district, county office of education, independent auditor, and the State Superintendent of Public Instruction regarding the acceptance or rejection of each report.

For FY 2001-02, 88% of the audit reports were accepted; the remaining 12% were rejected upon initial review. The rejected audit reports were subsequently accepted after the independent auditors made requested corrections. Rejection of an auditor's report is accompanied by a penalty whereby the independent auditor does not receive the 10% service fee retained by the district until the audit report has been corrected and certified by the State Controller's Office. In addition, if an independent auditor has had a report rejected (and not subsequently corrected) for the same district for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

Increase in rejected audit reports

The number of rejected reports increased by 12 from the prior year (from 112 to 124), an 11% increase (Table 9). The rejections resulted mainly from errors in reporting state compliance requirements and quantifying the fiscal impact of state compliance findings.

Table 9

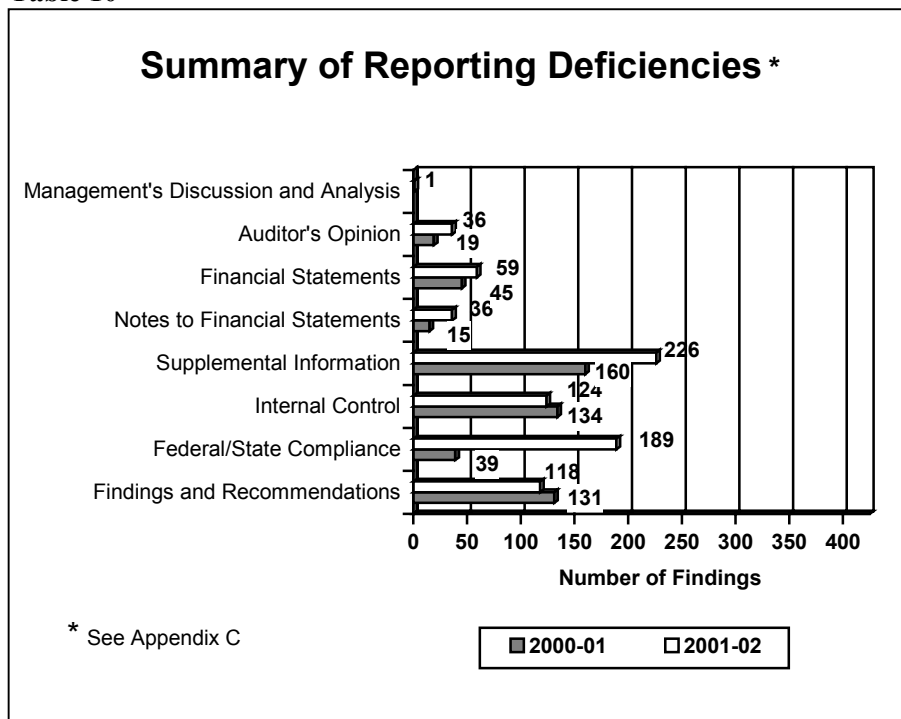


Reporting Deficiencies

Overall reporting deficiencies increased significantly

Upon initial review, the State Controller's Office certified 917 (88%) of the 1,041 audit reports submitted by independent CPAs for FY 2001-02.

Table 10



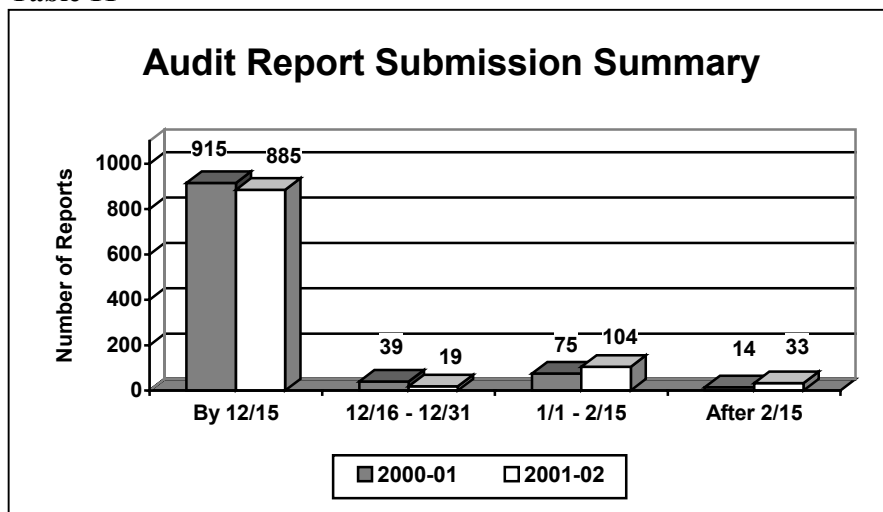
The reporting deficiencies in a variety of report areas increased significantly. For FY 2001-02, there were 789 reporting deficiencies, an increase of 246 from the prior year (Table 10).

Timely Submissions

Annual reports not submitted on time

Audit reports for the preceding fiscal year must be filed with the State Controller's Office, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Table 11



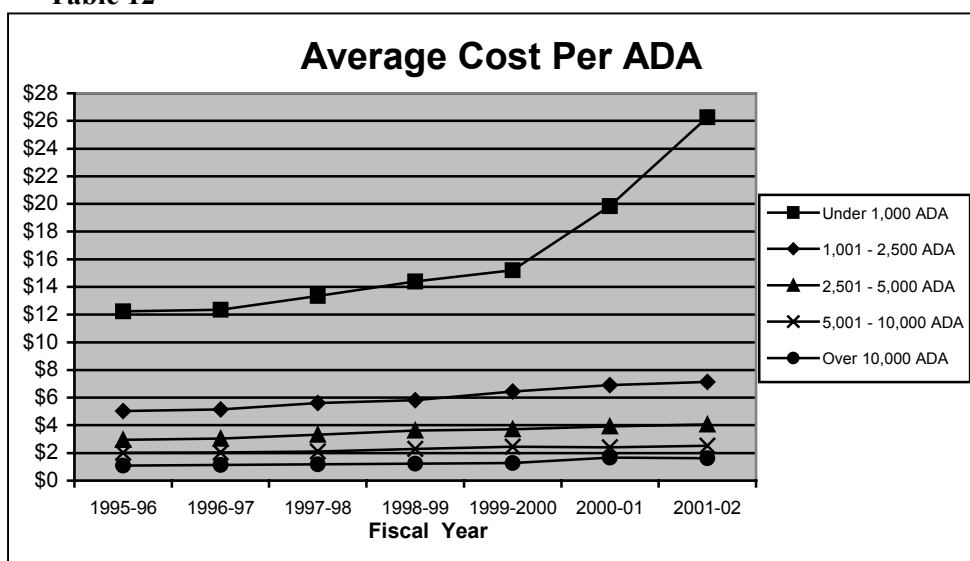
The number of annual audit reports submitted on time decreased from the previous year (Table 11). During FY 2001-02, 30 fewer reports were received by the December 15 deadline. This can be attributed to the implementation of GASB 34, for approximately 450 school districts. The majority of annual reports—885 of 1,041, or 85%—were submitted by the deadline.

Average Audit Cost per ADA

Average audit costs increased slightly

The State Controller's Office maintains a database of information pertaining to audit contracts between local school districts and independent auditors. From that database, the total audit costs and cost per audit were determined, per unit of ADA, for school districts' annual audits. Audit costs for the FY 2001-02 audits totaled \$15.74 million, an increase of \$980,000, or 6.6%, over total audit costs of \$14.76 million for FY 2000-01.

Table 12



The average audit cost per ADA increased slightly over the prior year. The largest increase of 32.30% (\$6.41) was for districts with ADA of under 1,000.

Quality Control Reviews

Under Chapter 1128, Statutes of 2002, the State Controller's effort in Quality Control Reviews (QCR) will be expanded to include Local Educational Agencies (LEAs) that have received a negative budget/interim report certification, and school districts that have a "going concern" issue, as determined by the county superintendent. QCRs are necessary to ensure that the CPAs are adequately reviewing the LEAs, are following generally accepted audit standards and government audit standards, and are including findings regarding financial stability and compliance with state and federal laws in the annual independent auditor's reports. These QCRs will be conducted on a two-year cycle.

Chapter 1128 also requires the State Controller's Office to publish a directory of CPAs whom it deems qualified to conduct audits of LEAs. This directory is to be published by December 31 of each year.

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Appendix A— Audit Report and Interim Report Disclosures of Impending Financial Problems

| County School District | Full Disclosure in Auditor's Opinion | Full Disclosure in Financial Statement and Accompanying Notes | 2001-02 Average Daily Attendance | 2002-03 Interim Report ¹ | | 2001-02 Interim Report ¹ |
|---------------------------------|---|---|---|--|----------------|--|
| | | | | First | Second | Second |
| Alameda County: | | | | | | |
| Albany Unified | No | No | 3,069 | Q | Q | Q |
| Berkeley Unified | Yes | Yes | 10,565 | N | N | N |
| Emery Unified | Yes | Yes | 924 | N | N | N |
| Hayward Unified | No | Yes | 26,109 | Q | Q | P |
| Livermore Valley Joint Unified | No | Yes | 13,804 | Q | Q | P |
| Newark Unified | No | No | 7,655 | Q | P | P |
| Oakland Unified ³ | | | | N | N | P |
| Amador County: | | | | | | |
| Amador County Office | No | No | 249 | Q | Q | Q |
| Amador County Unified | No | No | 4,462 | Q | Q | Q |
| Calaveras County: | | | | | | |
| Calaveras Unified | No | Yes | 3,527 | P | Q ² | P |
| Contra Costa County: | | | | | | |
| Antioch Unified | No | No | 19,177 | P | Q | P |
| John Swett Unified | No | No | 1,801 | P | Q | P |
| Martinez Unified | No | Yes | 5,307 | P | Q | P |
| Pittsburg Unified | No | No | 9,797 | Q | Q | P |
| Fresno County: | | | | | | |
| Fresno Unified | No | No | 77,760 | P | Q | P |
| Kerman Unified | No | No | 3,407 | P | Q | P |
| West Fresno Elementary | Yes | Yes | 951 | N | N | N |
| Humboldt County: | | | | | | |
| Ferndale Unified | No | No | 480 | P | Q | Q |
| Southern Humboldt Joint Unified | No | No | 1,124 | P | Q | Q |
| Inyo County: | | | | | | |
| Round Valley Joint Elementary | No | No | 116 | P | Q | P |
| Kern County: | | | | | | |
| Beardsley Elementary | No | No | 1,546 | P | Q | Q |
| El Tejon Unified | No | No | 1,296 | P | Q | P |
| Lost Hills Union | No | No | 516 | Q | Q | Q |
| McFarland Unified | No | No | 2,709 | Q | Q | Q |
| Pond Union Elementary | No | Yes | 159 | Q ² | Q | P |
| Lake County: | | | | | | |
| Upper Lake Union High | No | Yes | 349 | P | Q | Q |
| Lassen County: | | | | | | |
| Susanville Elementary | No | No | 1,321 | Q | P | P |

¹ P = Positive Q = Qualified N = Negative

² County office of education changed certification from positive to qualified.

³ Annual audit report has not been submitted to the State Controller's Office.

Appendix A (continued)

| County School District | Full Disclosure in Auditor's Opinion | Full Disclosure in Financial Statement and Accompanying Notes | 2000-01 Average Daily Attendance | 2002-03 Interim Report ¹ | | 2001-02 Interim Report ¹ |
|-------------------------------|---|---|---|--|----------------|--|
| | | | | First | Second | Second |
| Los Angeles County: | | | | | | |
| East Whittier City Elementary | No | No | 8,915 | Q ² | P | P |
| El Rancho Unified | No | Yes | 12,741 | Q ² | P | P |
| Monrovia Unified | No | No | 7,083 | P | Q | P |
| Temple City Unified | No | No | 5,548 | P | Q | P |
| Marin County: | | | | | | |
| Bolinas-Stinson Union | No | No | 136 | P | Q | P |
| Sausalito-Marín City | No | No | 239 | P | Q | P |
| Monterey County: | | | | | | |
| Greenfield Unified | No | Yes | 2,466 | N | N | P |
| North Monterey County Unified | No | No | 5,965 | P | Q | P |
| Santa Rita Union Elementary | No | No | 2,820 | Q ² | Q | P |
| Spreckles Union | No | No | 897 | P | Q | P |
| Washington Union | No | No | 845 | P | Q | P |
| Sacramento County: | | | | | | |
| Natomas Unified | No | Yes | 5,957 | Q | Q | Q |
| San Bernardino County: | | | | | | |
| Rim of the World Unified | No | No | 5,442 | Q | P | P |
| Trona Joint Unified | No | Yes | 355 | Q | P | P |
| San Mateo County: | | | | | | |
| Ravenswood City Elementary | No | Yes | 4,872 | Q | Q | P |
| Santa Barbara County: | | | | | | |
| Cold Spring Elementary | No | No | 210 | P | Q | P |
| Montecito Union | No | No | 431 | P | Q | P |
| Santa Clara County: | | | | | | |
| Alum Rock Union | No | No | 14,324 | Q | Q | Q |
| Berryessa Elementary | No | No | 8,159 | Q | P | P |
| Orchard Elementary | Yes | Yes | 770 | Q | N | N |
| Santa Cruz County: | | | | | | |
| Santa Cruz City | No | No | 8,117 | Q | Q | Q |
| San Lorenzo Valley Unified | No | Yes | 3,798 | Q ² | Q ² | P |
| Scotts Valley Unified | No | No | 2,471 | Q | Q | P |
| Soquel Union Elementary | No | Yes | 2,034 | Q ² | Q ² | P |
| Shasta County: | | | | | | |
| Fall River Joint Unified | No | No | 1,366 | Q | Q | Q |
| Gateway Unified | No | Yes | 3,508 | Q | Q | P |
| Happy Valley Union | No | No | 639 | Q | Q | P |
| Sierra County: | | | | | | |
| Sierra-Plumas Joint Unified | No | Yes | 701 | Q ³ | N ³ | N |
| Siskiyou County: | | | | | | |
| Butteville Elementary | No | No | 107 | P | Q ² | P |
| Dunsmuir Joint Union High | No | No | 141 | P | Q ² | P |
| Etna Union Elementary | No | No | 201 | P | Q ² | P |
| Etna Union High | No | No | 467 | P | Q ² | P |

¹ P = Positive Q = Qualified N = Negative

² County office of education changed certification from positive to qualified.

³ California Department of Education changed certification from positive to qualified.

Appendix A (continued)

| County School District | Full Disclosure in Auditor's Opinion | Full Disclosure in Financial Statement and Accompanying Notes | 2000-01 Average Daily Attendance | 2002-03 Interim Report ¹ | | 2001-02 Interim Report ¹ Second |
|-----------------------------|---|---|---|--|--------|--|
| | | | | First | Second | |
| Solano County: | | | | | | |
| Benicia Unified | Yes | Yes | 5,347 | Q | N | P |
| Vacaville Unified | Yes | Yes | 14,425 | Q | Q | Q |
| Vallejo City Unified | Yes | Yes | 19,216 | Q | Q | Q |
| Sonoma County: | | | | | | |
| Bellevue Elementary | No | No | 1,642 | P | Q | Q |
| Cloverdale Unified | No | Yes | 1,541 | Q | Q | Q |
| Geyserville Unified | No | Yes | 293 | Q | Q | Q |
| Harmony Union Elementary | No | Yes | 413 | P | Q | P |
| Stanislaus County: | | | | | | |
| Denair Unified | No | No | 1,163 | Q | Q | P |
| Tehama County: | | | | | | |
| Red Bluff Joint Union High | No | No | 1,908 | Q | P | P |
| Red Bluff Union Elementary | No | No | 2,197 | Q | Q | Q |
| Tuolumne County: | | | | | | |
| Twain Harte-Long Barn Union | No | No | 607 | Q | Q | Q |
| Yuba County: | | | | | | |
| Marysville Joint Unified | No | No | 9,249 | P | Q | P |

¹ P = Positive Q = Qualified N = Negative

² County office of education changed certification from positive to qualified.

³ California Department of Education changed certification from positive to qualified.

Appendix B— School Districts Filing Qualified or Negative Interim Reports

| County School District | 1 st /2 nd Certification ¹ | Deficit Spending | Inadequate Reserves | Govenor’s Mid- Year Cuts and Budget Reductions | Revenues Over- Estimated | Analysis of Key Indicators for Financial Difficulties | | | | | |
|---------------------------------|--|---------------------|------------------------|--|--------------------------------|---|-------------------------|------------------------------------|-----------------------|-----------------------|--------------------------------------|
| | | | | | | Salary and Benefit Negotiations | Declining Enrollment | Enrollment Growth Projection | Cash Flow Problems | Litigation Matters | Audit Adjustments/ Settlements |
| Alameda County: | | | | | | | | | | | |
| Albany Unified | Q/Q | ● | ● | ● | | ● | | | | | |
| Berkeley Unified | N/N | ● | ● | ● | | | | | ● | | |
| Emery Unified | N/N | ● | ● | | | | ● | | | | |
| Hayward Unified | Q/Q | ● | ● | ● | | ● | | | | | |
| Livermore Valley Joint Unified | Q/Q | ● | ● | | | ● | | | | | |
| Newark Unified | Q/P | ● | ● | ● | | | ● | | | | |
| Oakland Unified | N/N | ● | ● | | | | | | | | |
| Amador County: | | | | | | | | | | | |
| Amador COE | Q/Q | ● | ● | ● | | ● | | | | | |
| Amador County Unified | Q/Q | ● | ● | ● | | ● | | | | | |
| Calaveras County: | | | | | | | | | | | |
| Calaveras Unified | P/Q | ● | ● | | | ● | ● | | | | |
| Contra Costa County: | | | | | | | | | | | |
| Antioch Unified | P/Q | ● | | | | | | | | | |
| John Swett Unified | P/Q | ● | | | | ● | | | | | |
| Martinez Unified | P/Q | ● | | | | ● | | | | | |
| Pittsburg Unified | Q/Q | ● | | | | ● | | | | | |
| Fresno County: | | | | | | | | | | | |
| Fresno Unified | P/Q | | | ● | | | | | | | |
| Kerman Unified | P/Q | | | ● | | | | | | | |
| West Fresno Elementary | N/N | ● | ● | ● | | | | | | | |
| Humboldt County: | | | | | | | | | | | |
| Ferndale Unified | P/Q | ● | | | | | | | ● | | |
| Southern Humboldt Joint Unified | P/Q | ● | | | | | ● | | | | |
| Inyo County: | | | | | | | | | | | |
| Round Valley Joint Elementary | P/Q | ● | ● | | | | | | | | |

¹ P=Positive Q=Qualified N=Negative

Appendix B (continued)

| County School District | 1 st /2 nd Certification ¹ | Deficit Spending | Inadequate Reserves | Govenor’s Mid- Year Cuts and Budget Reductions | Revenues Over- Estimated | Analysis of Key Indicators for Financial Difficulties | | | | | |
|-------------------------------|--|---------------------|------------------------|--|--------------------------------|---|-------------------------|------------------------------------|-----------------------|-----------------------|--------------------------------------|
| | | | | | | Salary and Benefit Negotiations | Declining Enrollment | Enrollment Growth Projection | Cash Flow Problems | Litigation Matters | Audit Adjustments/ Settlements |
| Kern County: | | | | | | | | | | | |
| Beardsley Elementary | P/Q | ● | | | | ● | | | | | |
| El Tejon Unified | P/Q | ● | ● | | | | | | | | |
| Lost Hills Union | Q/Q | ● | ● | | | ● | | | | | |
| McFarland Unified | Q/Q | ● | | ● | | ● | | | | | |
| Pond Union Elementary | Q/Q | | | ● | | | | | ● | | |
| Lake County: | | | | | | | | | | | |
| Upper Lake Union High | P/Q | | ● | ● | | | | | ● | | |
| Lassen County: | | | | | | | | | | | |
| Susanville Elementary | Q/P | ● | | | | | ● | | | | |
| Los Angeles County: | | | | | | | | | | | |
| East Whittier City Elementary | Q/P | ● | ● | ● | | ● | | | | | |
| El Rancho Unified | Q/P | | ● | ● | | ● | | | ● | | ● |
| Monrovia Unified | P/Q | ● | ● | | | ● | | | | | |
| Temple City Unified | P/Q | ● | ● | | | | | | | | |
| Marin County: | | | | | | | | | | | |
| Bolinas-Stinson Union | P/Q | ● | | | ● | ● | | | | | |
| Sausalito-Marín City | P/Q | ● | | | | | ● | | | | |
| Monterey County: | | | | | | | | | | | |
| Greenfield Unified | N/N | ● | ● | ● | | | | | | | |
| North Monterey County Unified | P/Q | ● | ● | ● | | ● | | | | | |
| Santa Rita Union Elementary | Q/Q | ● | ● | | ● | ● | | | | | |
| Spreckles Union | P/Q | ● | ● | | | ● | | | | | |
| Washington Union | P/Q | ● | ● | ● | | ● | | | | | |
| Sacramento County: | | | | | | | | | | | |
| Natomas Unified | Q/Q | | ● | | | | | ● | | | |
| San Bernardino County: | | | | | | | | | | | |
| Rim of the World Unified | Q/P | ● | | | | ● | | | | | |
| Trona Joint Unified | Q/P | | | | ● | ● | | | | | |
| San Mateo County: | | | | | | | | | | | |
| Ravenswood City | Q/Q | | ● | | | ● | | | | ● | |

¹ P=Positive Q=Qualified N=Negative

Appendix B (continued)

| County School District | 1 st /2 nd Certification ¹ | Deficit Spending | Inadequate Reserves | Govenor’s Mid- Year Cuts and Budget Reductions | Revenues Over- Estimated | Analysis of Key Indicators for Financial Difficulties | | | | | |
|------------------------------|--|---------------------|------------------------|--|--------------------------------|---|-------------------------|------------------------------------|-----------------------|-----------------------|--------------------------------------|
| | | | | | | Salary and Benefit Negotiations | Declining Enrollment | Enrollment Growth Projection | Cash Flow Problems | Litigation Matters | Audit Adjustments/ Settlements |
| Santa Barbara County: | | | | | | | | | | | |
| Cold Spring Elementary | P/Q | ● | ● | | | | | | | | |
| Montecito Union | P/Q | ● | ● | | | | | | | | |
| Santa Clara County: | | | | | | | | | | | |
| Alum Rock Union | Q/Q | ● | ● | | | | | | | | |
| Berryessa Elementary | Q/P | | ● | ● | | | | | | | |
| Orchard Elementary | Q/N | ● | ● | | | | | | | | |
| Santa Cruz County: | | | | | | | | | | | |
| Santa Cruz City | Q/Q | ● | ● | | | | | | | | |
| San Lorenzo Valley Unified | Q/Q | ● | ● | | | | | | | | |
| Scotts Valley Unified | Q/Q | ● | ● | | | | | | | | |
| Soquel Union Elementary | Q/Q | ● | ● | | | | | | | | |
| Shasta County: | | | | | | | | | | | |
| Fall River Joint Unified | Q/Q | ● | | | | ● | | | | | |
| Gateway Unified | Q/Q | ● | | | | ● | | | | | |
| Happy Valley Union | Q/Q | ● | | | | ● | | | | | |
| Sierra County: | | | | | | | | | | | |
| Sierra-Plumas Joint Unified | Q/N | ● | ● | | | | | | | | |
| Siskiyou: | | | | | | | | | | | |
| Butteville Elementary | P/Q | ● | | | | | | | | | |
| Dunsmuir Joint Union High | P/Q | ● | | | | | ● | | | | |
| Etna Union Elementary | P/Q | ● | | | | | ● | | | | |
| Etna Union High | P/Q | ● | | | | | ● | | | | |
| Solano County: | | | | | | | | | | | |
| Benicia Unified | Q/N | ● | ● | | | ● | | | | | |
| Vacaville Unified | Q/Q | | ● | ● | | | | | | | |
| Vallejo City Unified | Q/Q | | ● | ● | | | | | | | |

¹ P=Positive Q=Qualified N=Negative

Appendix B (continued)

| County School District | 1 st /2 nd Certification ¹ | Deficit Spending | Inadequate Reserves | Govenor's Mid- Year Cuts and Budget Reductions | Revenues Over- Estimated | Analysis of Key Indicators for Financial Difficulties | | | | | |
|-----------------------------|--|---------------------|------------------------|--|--------------------------------|---|-------------------------|------------------------------------|-----------------------|-----------------------|--------------------------------------|
| | | | | | | Salary and Benefit Negotiations | Declining Enrollment | Enrollment Growth Projection | Cash Flow Problems | Litigation Matters | Audit Adjustments/ Settlements |
| Sonoma County: | | | | | | | | | | | |
| Bellevue Elementary | P/Q | ● | ● | | | ● | | ● | | | |
| Cloverdale Unified | Q/Q | ● | ● | | | | | | | | |
| Geyserville Unified | Q/Q | ● | ● | | | | | ● | | | |
| Harmony Union Elementary | P/Q | ● | ● | | | | | ● | | | |
| Stanislaus County: | | | | | | | | | | | |
| Denair Unified | Q/Q | ● | | | | | | | ● | | |
| Tehama County: | | | | | | | | | | | |
| Red Bluff Union High | Q/P | | ● | | | | | | | | |
| Red Bluff Union Elementary | Q/Q | ● | | | | ● | | | | | |
| Tuolumne County: | | | | | | | | | | | |
| Twain Harte-Long Barn Union | Q/Q | | ● | ● | | | | ● | | | |
| Yuba County: | | | | | | | | | | | |
| Marysville Joint Unified | P/Q | | ● | ● | | | | | | | |

¹ P=Positive Q=Qualified N=Negative

Appendix C— Summary of Audit Report Problems

| Description | Number of Findings | |
|---|--------------------|---------|
| | 2000-01 | 2001-02 |
| <u>Management's Discussion and Analysis</u> | | |
| The Management's Discussion and Analysis was not included in the audit report. | N/A | 1 |
| | N/A | 1 |
| <u>Auditor's Opinion</u> | | |
| The auditor's qualified opinion due to departure from generally accepted accounting principles (GAAP) did not provide substantive reasons for departure and/or did not disclose possible effects on the financial statements. | 10 | 14 |
| The introductory paragraph of the auditor's report did not clearly identify financial statements covered by the auditor's opinion. | 1 | 0 |
| The auditor's opinion did not state that the financial statements conformed with accounting principles generally accepted in the USA. | 3 | 7 |
| The auditor's report did not state that the audit was conducted in accordance with auditing standards generally accepted in the USA and government auditing standards (GAS). | 3 | 3 |
| Reference to a separate report on compliance and on internal control over financial reporting was not included. | 1 | 0 |
| The auditor's report did not include a manual or printed signature of the auditor's firm and the date of the report. | 1 | 1 |
| The auditor's qualified opinion due to a scope limitation did not include an explanatory paragraph explaining the limitation and/or did not disclose the possible effects on the financial statements. | 0 | 1 |
| Substantive reasons for either an adverse opinion or a disclaimer of opinion were not adequately disclosed. | 0 | 1 |
| The auditor's report did not reference the required supplementary information (RSI). | 0 | 4 |
| The auditor's report did not state that the auditor applied limited procedures to the RSI. | 0 | 3 |
| The auditor's report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards. | 0 | 2 |
| | 19 | 36 |
| <u>Financial Statements</u> | | |
| The Combined Balance Sheet was not properly presented. | 1 | 1 |
| The fund balance was not properly reserved for material nonexpendable assets. | 17 | 3 |
| Long-term debt was improperly reported and presented. | 7 | 40 |
| Interfund receivables did not equal interfund payables. | 3 | 1 |
| Reserves were not appropriate, and their nature and purpose were not clear. | 17 | 3 |
| The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances was not properly presented. | 0 | 7 |
| The Statement of Changes in Fiduciary Net Assets—Fiduciary Funds was not properly presented. | 0 | 4 |
| | 45 | 59 |

Appendix C (continued)

| Description | Number of Findings | |
|--|--------------------|------------|
| | 2000-01 | 2001-02 |
| <u>Notes to the Financial Statements</u> | | |
| All activities, organizations, or functions of government related to the entity were not identified. | 2 | 0 |
| The notes did not adequately disclose all material items necessary for a fair presentation of the financial statements (long-term debt, issuance of certificates of participation, pension obligations, prior-period adjustments, etc.). | 1 | 5 |
| The notes did not adequately disclose pension obligations. | 1 | 1 |
| The notes did not include full disclosure with respect to long-term debt. | 4 | 11 |
| The notes did not adequately disclose prior-period restatements or adjustments. | 2 | 2 |
| The notes did not adequately describe the criteria used in determining whether other entities should be considered component units of the reporting entity. | 5 | 2 |
| The notes did not include adequate disclosure with respect to detail of debt service requirements. | 0 | 15 |
| | <u>15</u> | <u>36</u> |
| <u>Supplemental Information Section</u> | | |
| The Schedule of Expenditures of Federal Awards did not include the required federal catalog numbers, total expenditures for each federal program were not listed, or the schedule did not include all the required programs. (For FY 2001-02, the SCO reviewed additional attributes and identified: | | |
| • Individual federal programs by federal agency and, for a cluster of programs, individual programs within the cluster. | | |
| • For federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.) | 152 | 182 |
| The notes did not disclose the district's participation in the Early Retirement Incentive program. | 3 | 1 |
| The auditor's report did not include an opinion on supplementary information. | 1 | 0 |
| The reconciliation of annual financial and budget report with audited financial statements was not included. | 2 | 0 |
| The auditor's report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards. | 1 | 0 |
| The Schedule of Financial Trends and Analysis was omitted or contained deficiencies. | 0 | 0 |
| The Schedule of Expenditures of Federal Awards was not included. | 1 | 0 |
| The Schedule of Instructional Time was not included or the schedule was deficient. | 0 | 38 |
| The separate budgetary comparison schedule for the general fund and each major special revenue fund was not properly presented. | 0 | 1 |
| The Schedule of Average Daily Attendance was not included. | 0 | 4 |
| | <u>160</u> | <u>226</u> |

Appendix C (continued)

| Description | Number of Findings | |
|---|--------------------|------------|
| | 2000-01 | 2001-02 |
| <u>Internal Control Section</u> | | |
| The Report on Compliance and on Internal Control over Financial Reporting did not reference the financial statements audited. | 110 | 59 |
| The Report on Compliance and on Internal Control over Financial Reporting was deficient. | 22 | 18 |
| The Auditor's Report on Compliance and Internal Control in accordance with Government Auditing Standards was not included. | 1 | 1 |
| The Report on Compliance and on Internal Control over Financial Reporting did not include a statement that the audit was conducted in accordance with GAS and auditing standards generally accepted in the USA. | 1 | 1 |
| The Independent Auditor's Report on Compliance and Internal Control over Financial Reporting did not include a statement regarding legal restrictions on report distribution. | 0 | 45 |
| | <u>134</u> | <u>124</u> |
| <u>Federal and State Compliance Section</u> | | |
| The Auditor's Report on State Compliance was deficient. | 22 | 14 |
| The Auditor's Report on State Compliance was not included. | 1 | 0 |
| The Auditor's Report on State Compliance did not include a statement regarding legal restrictions on report distribution. | N/A | 132 |
| The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 (Compliance section) was deficient. | 2 | 2 |
| The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 (Internal Control over Compliance section) was deficient. | 12 | 4 |
| The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 was not included. | 2 | 2 |
| The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 did not include a statement regarding legal restrictions on report distribution. | N/A | 35 |
| | <u>39</u> | <u>189</u> |

Appendix C (continued)

| Description | Number of Findings | |
|---|--------------------|------------|
| | 2000-01 | 2001-02 |
| <u>Findings and Recommendations Section</u> | | |
| There was no report on the auditee's corrective action plan to eliminate noncompliance included in the report. | 16 | 8 |
| The audit findings were not coded with the correct five-digit number. | 3 | 7 |
| Noncompliance was reported, but sufficient data was not presented. | 19 | 27 |
| The Schedule of Instructional Time indicated noncompliance with the requirements, but the finding was not included in the report. | 1 | 1 |
| The fiscal impact resulting from noncompliance was not quantified. | 45 | 38 |
| Available reserves were below the minimum required; and management's plans were not addressed and/or a going concern note was not included. | 10 | 9 |
| The summary of the auditor's results was not included. | 2 | 1 |
| Major federal programs were not identified. | 1 | 2 |
| The summary schedule of prior audit findings was not included | 1 | 3 |
| Sufficient information for judging the frequency and consequences of noncompliance was not included. | 32 | 21 |
| Questioned or unsupported costs material to the financial statements were not properly disclosed. | <u>1</u> | <u>1</u> |
| | <u>131</u> | <u>118</u> |
| Total number of findings | <u>543</u> | <u>789</u> |

Appendix D— Summary of Audit Report Compliance Findings

| <u>Program</u> | <u>Description of Problem</u> | <u>Number of Findings</u> |
|---------------------------------------|--|-------------------------------|
| STATE | | |
| Adult Education | Attendance accounting deficiencies | 10 |
| | Attendance report does not reconcile | 1 |
| | Other findings | 5 |
| Child Development | Lack of documentation/records | 1 |
| Longer Instructional Day | Instructional time requirements not met | 17 |
| | Other findings | 7 |
| | Lack of documentation/records | 4 |
| Continuation Education | Other findings | 6 |
| | Attendance accounting deficiency | 10 |
| Independent Study | Other findings | 21 |
| | Contract did not include all required elements | 18 |
| | Work samples not retained | 5 |
| | Attendance overstated | 14 |
| Summer School | Attendance accounting deficiencies | 11 |
| State Instructional Materials Fund | Expenditures not allowable | 7 |
| | Public hearing on instructional materials held after June 30 | 27 |
| | Ten-day notice of public hearing not posted at three public locations in district | 15 |
| | More than 30% of allowance and interest expended on nonadopted materials | 17 |
| | Other findings | 16 |
| | Adopted/nonadopted requirements not met. | 11 |
| Attendance Requirements | Interest earned on allowance not allocated to the program | 9 |
| | Excused absences—problems with verification procedures/documentation | 10 |
| | Attendance accounting system not approved by CDE | 3 |
| | Attendance registers/scantrons not signed by teacher | 25 |
| | Attendance report does not reconcile to supporting documentation | 18 |
| | Attendance report inaccurate/incomplete | 30 |
| | Lack of documentation/records | 11 |
| | ADA overstated by 0-5 ADA | 45 |
| | ADA overstated by 5-10 ADA | 14 |
| | ADA overstated by 10-20 ADA | 1 |
| | ADA overstated by more than 20 ADA | 2 |
| | Kindergarten continuation forms not maintained and/or not in compliance with state requirements | 60 |
| | Absences claimed for apportionment | 14 |
| | Teacher(s) did not possess a valid certification document | 8 |
| | | <u>473</u> |

Appendix D (continued)

| <u>Program</u> | <u>Description of Problem</u> | <u>Number of Findings</u> |
|--------------------------------------|---|---------------------------|
| STATE (continued) | | |
| Attendance Requirements (continued) | Incorrect reporting of attendance for staff development days | 15 |
| | ADA understated by 0-5 ADA | 16 |
| | ADA understated by 5-10 ADA | 3 |
| | ADA understated by 11-20 ADA | 2 |
| | ADA understated by more than 20 ADA | 4 |
| | Student not eligible for admittance to kindergarten | 4 |
| | Enrollment not reconciled to monthly attendance reports | 5 |
| | Other findings | 14 |
| Inventory of Equipment | Inventory of equipment not maintained | 20 |
| Gann Limit Calculation | Appropriation limit calculation deficiency | 4 |
| | Other findings | 1 |
| Class-Size Reduction | Number of classes and pupils reported on Form J-7 CSR understated | 46 |
| | Number of classes and pupils reported on Form J-7 CSR overstated | 42 |
| | Lack of documentation/records | 3 |
| | Positive daily enrollment records/counts not maintained | 1 |
| | Other findings | 14 |
| Grade 9 Class Size Reduction | Lack of documentation/records | 4 |
| | Number of classes and pupils reported on Form J-9 MH-A understated | 15 |
| | Number of classes and pupils reported on Form J-9 MH-A overstated | 16 |
| | Average pupil enrollment count not used | 3 |
| | Other findings | 6 |
| Schiff-Bustamante | Expenditures not allowable | 23 |
| | Other findings | 3 |
| Digital High School | Local match requirement not met | 1 |
| | Other findings | 7 |
| Deferred Maintenance | Expenditures not allowable | 3 |
| Staff Development Days | Applications for funding overstated | 24 |
| | Other findings | 12 |
| Other State Programs | Financial report inaccurate/not complete/multi-funded positions not supported | 2 |
| | Financial report/claim not filed/filed late | 1 |
| | Lack of documentation/records | 3 |
| | Other findings | 4 |
| Regional Occupational Center/Program | Attendance accounting deficiencies | 1 |
| | Attendance report does not reconcile to supporting documentation | 1 |
| | Other findings | 1 |

Appendix D (continued)

| <u>Program</u> | <u>Description of Problem</u> | <u>Number of Findings</u> |
|-------------------------------|---|-------------------------------|
| STATE (continued) | | |
| Community Day Schools | Attendance report inaccurate | 4 |
| California Public Library Act | Expenditures not allowable | 35 |
| | Other findings | 1 |
| School Improvement Program | Other findings | 1 |
| Consolidated Application | Other findings | 1 |
| Special Education | Other findings | <u>1</u> |
| Total state findings | | <u>840</u> |
| FEDERAL | | |
| Special Education | Allowable costs/cost principles | 3 |
| | Special tests and provisions | 1 |
| Head Start | Reporting | 1 |
| | Eligibility | 1 |
| | Matching level of effort, earmarking | 1 |
| | Other findings | 1 |
| Federal Programs | Noncompliance with requirements for allowable costs/cost principles | 5 |
| | Noncompliance with requirements for equipment and real property management | 11 |
| | Noncompliance with requirements for cash management | 2 |
| | Multifunded position not supported by time distribution records | 43 |
| | Noncompliance with requirements for procurement/suspension/debarment | 1 |
| | Noncompliance with requirements for period of availability of federal funds | 1 |
| | Other findings | 1 |
| School Breakfast Program | Eligibility of participants | 1 |
| | Reporting requirements | 1 |
| | Lack of documentation/records | 1 |
| National School Lunch | Eligibility of participants | 14 |
| | Lack of documentation/records | 2 |
| | Financial report inaccurate | 4 |
| | Expenditures overstated | 1 |
| | Expenditures understated | 4 |
| | Types of services allowed/unallowed | 3 |
| | Reporting requirements | 1 |
| | Special tests and provisions | 1 |
| | Allowable costs/cost principles | 1 |
| | Reported revenue erroneous | 1 |
| | Other findings | 2 |

Appendix D (continued)

| <u>Program</u> | <u>Description of Problem</u> | <u>Number of Findings</u> |
|----------------------------------|---|---------------------------|
| FEDERAL (continued) | | |
| Title I— Grants to LEAs | Equipment and real property management | 4 |
| | Period of availability of federal funds | 3 |
| | Expenditures overstated | 5 |
| | Expenditures understated | 1 |
| | Special tests and provisions | 1 |
| | Allowable costs/cost principles | 13 |
| | Lack of documentation/records | 5 |
| | Activities allowed or unallowed | 2 |
| | Other findings | 10 |
| Bilingual Education | Equipment and real property management | 1 |
| Child Care Food | Expenditures overstated | 1 |
| Eisenhower Math and Science | Period of availability of federal funds | 1 |
| Impact Aid | Reporting | 1 |
| Vocational Education | Equipment and real property management | 1 |
| Drug-Free Schools | Period of availability of federal funds | 1 |
| Other Federal | Reporting requirements | 3 |
| | Matching, level of effort, earmarking | 1 |
| | Allowable costs/cost principles | 6 |
| | Subrecipient monitoring | 1 |
| | Equipment and real property management | 2 |
| | Other findings | 4 |
| Total federal findings | | <u>176</u> |
| Total state and federal findings | | <u>1,016</u> |

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